

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 PM-07 SS-20 SP-03 INR-11 L-03 IGA-02

EB-11 RSC-01 DRC-01 NEAE-00 INRE-00 SSO-00 /076 W

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FM AMEMBASSY AMMAN

TO SECSTATE WASHDC IMMEDIATE 2170

C O N F I D E N T I A L SECTION 1 OF 2 AMMAN 4691

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DELIVER AT OPENING OF BUSINESS MONDAY

FOR NEA/ARN AND AMBASSADOR PICKERING

E.O. 11652: GDS

TAGS: MASS, JO, US

SUBJECT: SUPPORTING ASSISTANCE

REF: STATE 174091

1. THIS TELEGRAM IS IN RESPONSE TO REF REQUEST FOR ASSESSMENT GOJ CASH FLOW PROBLEM. WE HAVE OBTAINED CURRENT CASH FLOW DOCUMENT FROM BUDGET DIRECTOR OBAYD AND REVIEWED IT WITH HIM. HE INFORMED US THAT HE HAS SENT COPY TO PM FOR USE IN WASHINGTON. CONSEQUENTLY, WE ARE SENDING SUMMARY BY SEPARATE IMMEDIATE CABLE SO THAT WASHINGTON CAN DRAW ON SAME MATERIAL BEING USED BY RIFAI.

2. ACCORDING TO THIS DOCUMENT, GOJ IS COUNTING ON RECEIVING \$97.5 MILLION IN BUDGET SUPPORT FROM US DURING CALENDAR YEAR 1974. THEY REGARD \$10 MILLION DEPOSIT MADE LAST JANUARY AS PART OF 1973 BUDGET SUPPORT CONTRIBUTION AND HAVE PROGRAMMED ENTIRE \$87 MILLION AGAINST 1974 BUDGET. (THIS IS CHANGE FROM SCHEDULE PROVIDED BY PM EARLIER AND CONTAINED AMMAN 4462 WHICH PROGRAMMED \$60 MILLION IN 1974 AND \$27.5 MILLION IN FIRST PART OF 1975). EVEN WITH THIS HIGH LEVEL OF PROJECTED US BUDGET SUPPORT AND ASSUMING REGULAR CONTRIBUTIONS BY SAUDI ARABIA AND KUWAIT, CONFIDENTIAL

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PLUS WHAT OBAYD CLAIMS IS ONE-TIME SUPPLEMENTAL CONTRIBUTION OF

APPROXIMATELY \$14 MILLION MADE BY SAUDIS IN JUNE, CUMULATIVE CASH FLOW DEFICIT AS OF END OF YEAR WILL BE JD 14.5 MILLION OR \$45 MILLION. OTHER THINGS BEING EQUAL, THEN, ANY REDUCTION BELOW \$87 MILLION PROGRAMMED AS DEPOSITS BY US WILL RESULT IN COMPARABLE INCREASE IN CASH DEFICIT. WE UNDERSTAND (AMMAN 3995) ABU DHABI HAS AGREED TO CONTRIBUTE, BUT NOT YET FORWARDED, \$15 MILLION TO GOJ FOR AQABA PORT AND AMMAN MUNICIPALITY DEVELOPMENT PROJECTS BUT IT DOES NOT APPEAR THIS PAYMENT IS INTENDED AS BUDGET SUBSIDY. SIMILARLY, OUR REPORTS (AMMAN 2065) INDICATE ABOVE SAUDI PAYMENT IN JUNE WAS ADVANCE AGAINST REGULAR PAYMENTS AND NOT ADDITIONAL. IF THIS IS THE CASE, CASH FLOW BUDGET IS OVERESTIMATING REVENUES FROM ABROAD BY JD 4.6 MILLION (THE SAUDI PAYMENT) OR APPROXIMATELY \$14 MILLION.

3. IMPACT: SO MUCH FOR THE "FACTS" AS REVEALED IN OBAYD'S CASH FLOW STATEMENT (NEELESS TO SAY, WE CAN'T VOUCH FOR THEM ALL, BUT WE DON'T THINK THERE ARE MAJOR DISCREPANCIES.) THE IMPLICATIONS ARE HARDER TO ASSESS. THE LATEST CASH FLOW DOCUMENT ESTIMATES DOMESTIC BORROWING AT JD 10 MILLION DURING 1974 OF WHICH JD 4 MILLION WAS OBTAINED DURING FIRST SIX MONTHS. ON BASIS PAST EXPERIENCE, WE BELIEVE IT IS NOT REALISTIC TO COUNT ON DOMESTIC BORROWING AT HIGHER LEVEL. CONSEQUENTLY, ONLY OTHER WAY TO FINANCE PROJECTED DEFICIT WOULD BE VIA ADVANCES FROM CENTRAL BANK PLUS TAPPING LIMITED FUNDS WHICH MIGHT BE AVAILABLE IN MISCELLANEOUS GOVERNMENT ACCOUNTS, EG, PL-480. CLEARLY MOST OF THE FUNDS WOULD HAVE TO COME FROM CENTRAL BANK ADVANCES. ACCORDING TO GOJ STATUTE GOVERNING BUDGET, GOVERNMENT MAY NOT OBTAIN CENTRAL BANK ADVANCES IN EXCESS OF 20 PERCENT OF BUDGETED DOMESTIC REVENUES. USING CASH FLOW DOCUMENT AS BASIS FOR THIS CALCULATION, GOJ WOULD BE LIMITED TO JD 13 MILLION IN ADVANCES. THUS, ON FACE OF IT, IF US -- OR OTHER -- DEPOSITS ARE NOT UP TO PROJECTIONS AND ASSUMING OF COURSE THAT EXPENDITURES ARE NOT CUT BACK, GOJ WOULD HAVE TO EXCEED ITS STATUTORY LIMITATION ON CENTRAL BANK ADVANCES -- OR FIND THE NECESSARY RESOURCES IN SOME OTHER MANNER THAT WE CAN'T ANTICIPATE.

4. IN PAST GOJ HAS SHOWN ITSELF TO BE VERY SKILLFUL IN JUGGLING ITS AVAILABLE RESOURCES AND INDEED HAS BEEN WILLING TO EXCEED OR AT LEAST BEND STATUTORY AUTHORITY. CONSEQUENTLY, IT IS DIFFICULT TO JUDGE CONSEQUENCES OF HAVING TO DO IT ON LARGE SCALE PROJECTED.
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FOR INSTANCE, USING OBAYD'S FIGURES AND ASSUMING US WAS ABLE

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\$40 MILLION DURING REMAINDER OF 1974, THIS WOULD INCREASE CASH DEFICIT BY JD 15 MILLION OR DOUBLE THE AMOUNT NOW WOULD CLEARLY STRAIN GOJ JUGGLING ABILITIES TO UTMOST. ASSUMING MOST OR ALL OF THIS DEFICIT WERE FINANCED BY CENTRAL BANK ADVANCES IT WOULD CARRY THEM FAR BEYOND STATUTORY LIMITS. IN

ECONOMIC TERMS WE WOULD NOT EXPECT SERIOUS PROBLEMS, OTHER THAN PRESUMABLY MORE RAPID DRAWDOWN OF FOREIGN EXCHANGE RESERVES. AFTER ALL, ONLY THING US CAN DO IS PROVIDE FOREIGN EXCHANGE. ECONOMIC EFFECT OF CENTRAL BANK COVERING DEFICIT IS ESSENTIALLY TO USE JORDANIAN FOREIGN EXCHANGE RESERVES TO ABSORB INCREASED DEMAND RATHER THAN US AID. ONCE DEFICIT IS INCURRED, ECONOMIC EFFECT IS THE SAME IF OUTSIDE DONOR COVERS IN FOREIGN EXCHANGE OR CENTRAL BANK DOES.

5. HOWEVER, BLATENTLY EXCEEDING STATUTORY LIMITS ON CENTRAL BANK ADVANCES DOES HAVE OTHER POTENTIALLY SERIOUS IMPLICATIONS. ONCE THESE LIMITS ARE EXCEEDED IT MAY BE DIFFICULT TO RESTRAIN PRESSURES FOR EVEN MORE RAPID EXPANSION OF BUDGET EXPENDITURES IN FUTURE. WE HAVE ALL BEEN CONCERNED WITH STEADY EXPANSION OF BUDGET -- IT ALWAYS SEEMS TO BE AHEAD OF ANTICIPATED REVENUES. HOW MUCH MORE DIFFICULT MIGHT IT BE TO RESTRAIN JAF PRESSURES IF IT BECAME EVIDENT THAT STATUTORY LIMITS ON BUDGET COULD BE EXCEEDED WITHOUT SERIOUS CONSEQUENCES. WE WOULD, THEREFORE, BE RELUCTANT FOR US TO BE SOURCE OF ENCOURAGEMENT TO GO BEYOND LEGAL LIMITS.

6. IN ADDITION, WE ARE UNCERTAIN REGARDING THE REACTION OF THE PUBLIC AND THE MARKET TO SHARP INCREASE IN BUDGET DEFICIT. IF GOVERNMENT HAD TO RESORT TO ALMOST UNLIMITED ADVANCES FROM CENTRAL BANK, QUESTION OF CONFIDENCE MIGHT ARISE WHICH WOULD POSSIBLY ENCOURAGE CAPITAL FLIGHT. HOWEVER, WE SHOULD ACKNOWLEDGE WE DO NOT KNOW MUCH ABOUT THIS MATTER AND IT SHOULD NOT BE PUSHED TOO FAR.

7. WITH REFERENCE TO YOUR QUERY REGARDING REAL NEEDS, WE FIND IT VERY DIFFICULT TO PROVIDE SOLID RESPONSE. WE ARE NOT CLOSE ENOUGH TO THE BUDGET TO JUDGE REQUIREMENTS IN ANY GENUINE SENSE. OUR COMMENTS HAVE RELATED PRIMARILY TO FINANCING DEFICIT
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AND HAVE DEALT NEITHER WITH LIMITING EXPENDITURES NOR WITH POSSIBILITIES OF INCREASING DOMESTIC REVENUES, BOTH OF WHICH AT LEAST THEORETICALLY WOULD HAVE IMPACT ON GOJ BUDGETARY PROBLEMS. HOWEVER, WE HAVE ASUMED THAT IN CURRENT POLITICAL ENVIRONMENT AND ESPECIALLY IN SHORT RUN IT IS NOT REALISTIC TO GET INTO THESE AREAS.

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ACTION NEA-16

INFO OCT-01 ISO-00 PM-07 SS-20 SP-03 INR-11 L-03 IGA-02

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8. NONETHELESS IT MIGHT BE USEFUL TO SUMMARIZE WHAT HAS BEEN HAPPENING ON EXPENDITURE SIDE. AS NOW PROJECTED, 1974 BUDGET INCLUDES JD 134 MILLION IN EXPENDITURES, AN INCREASE OF APPROXIMATELY JD 13 MILLION OVER BUDGET AS PROPOSED IN BUDGET DOCUMENT IN JANUARY. IN ADDITION IT REPRESENTS AN INCREASE OF JD 28 MILLION OR 26 PERCENT OVER ACTUAL EXPENDITURES IN 1973. INCREASE CAN LARGELY BE ACCOUNTED FOR BY (A) INFLATION, (B) GOVERNMENT SALARY INCREASES, (C) MORE ACTIVE GOJ ROLE ON WEST BANK, (D) GOVERNMENT SUBSIDIES FOR FOOD IMPORTS AND (E) INCREASED ALLOCATIONS FOR JAF (COMMISSARIES, INCREASED SALARIES AND FRINGE BENEFITS) AND PUBLIC SECURITY WHICH OBYD STATES ARE RESPONSE TO ZARQA INCIDENT. DOUBTLESS WE COULD FIND SOME WEAK SPOTS BUT IN TERMS OF OVERALL TOTALS WE ARE DEALING WITH THEY WOULD PROBABLY BE MARGINAL.

9. IN VIEW PM RIFAI'S AND KING HUSSEIN'S CURRENT TRIPS TO US, AMBASSADOR AND DEPARTMENT ARE UNDOUBTEDLY IN GOOD POSITION TO JUDGE POLITICAL IMPACT ON US-JORDANIAN RELATIONS OF SHORTFALL IN SA FUNDING. FROM OUR PERSPECTIVE WE SEE OVER-RIDING CURRENT US OBJECTIVE AS SECURING GOJ COOPERATION IN STRATEGY FOR NEXT STEP IN DIFFICULT MIDEAST NEGOTIATIONS. IN THIS CONNECTION, WE SEE PROVISION OF SA IN FIRST QUARTER FY 75 AS EARLY TEST OF CREDIBILITY IN GOJ EYES OF OUR DESIRE TO PERSEVERE IN ACHIEVING GREATLY INCREASED MAP/FMS/SA FY 75 AID PACKAGE FOR JORDAN (WHICH WAS INCREASED PRECISELY IN ORDER TO PROVIDE POLITICAL CAPITAL ON WHICH WE COULD DRAW DURING DIFFICULT MIDEAST NEGOTIATIONS).
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QPM AT MOMENT WHEN MAXIMUM JORDANIAN COOPERATION AND POLITICAL WILL IS REQUIRED IN MIDEAST NEGOTIATIONS, GOJ FEELS POSSIBLE

ISOLATION IN INTER-ARAB POLITICS AND DECLINING PRIORITY IN CLAIMS ON ARAB AND US EXTERNAL ASSISTANCE. JORDANIANS VIEW OUR SA FOR JORDAN PARTICULARLY AGAINST BACKGROUND OF A) CONGRESSIONAL PRESSURES TO INCREASE ISRAELI SA FROM \$50 MILLION TO \$250 MILLION THIS YEAR; B) ESTABLISHMENT OF LARGE US AID PROGRAMS FOR SYRIA AND EGYPT AND C) ADDITIONAL PROVISION OF OVER \$1 BILLION IN SAUDI ASSISTANCE TO EGYPT AGREED TO IN RECENT SADAT-FAISAL MEETING. ON POSITIVE SIDE, ASSURANCE OF US FUNDING WOULD HELP ALLOW GOJ TO FOLLOW POLICIES IN US INTEREST WHICH COULD CONCEIVABLY RUN RISK OF LOSING SOUDI OR DUWAITI SUBSIDIES (EIGHER DIRECTLY OR THROUGH PLO PRESSURE) IN CONTEXT US AND JORDANIAN MIDEAST NEGOTIATION ACTIONS. ON NEGATIVE SIDE, US FAILURE TO SATISFY AT LEAST MINIMUM JORDANIAN DESIRES DURING CURRENT WASHINGTON DISCUSSIONS COULD HAVE SIGNIFICANT ADVERSE IMPACT AT A CRITICAL MOMENT IN US-JORDANIAN RELATIONS.

1. WITH REGARD TO TIMING, WE THEREFORE SEE GREAT ADVANTAGE TO PROVIDING SOME ADDITIONAL SA AS SOON AS POSSIBLE AS EARNEST OF OUR DETERMINATION TO EXERT EVERY EFFORT TO ACHIEVE FY 75 FUNDING GOALS FOR JORDAN. THIS WOULD ARGUE FOR MAXIMUM EFFORT TO SECURE ADDITIONAL SA THIS QUARTER.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, BUDGETS, CAPITAL FLOWS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974AMMAN04691
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740220-0851
From: AMMAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740856/aaaabwjh.tel
Line Count: 245
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: STATE 174091
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 AUG 2002 by izenbei0>; APPROVED <25 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SUPPORTING ASSISTANCE
TAGS: MASS, JO, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005